Retooling 360s for Better Performance

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For better or worse, the 360-degree feedback tool is SOP in many organizations. *Harvard Management Update* evaluates the evaluation method—and sees room for improvement.

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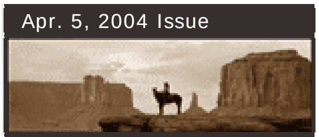

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Summing Up: Are Customer Loyalty Initiatives Worth the Investment?

by Lauren Keller Johnson

After earning its stripes in professional development, the 360-degree feedback tool—which combines input from supervisors, peers, and direct reports to provide a broad perspective on an employee's strengths and developmental needs—has insinuated itself into the performance appraisal processes at an increasing number of companies. But as some firms are discovering, the colleague-based feedback that has made 360s such a favored tool in development can be its Achilles' heel in performance reviews: most human beings possess a deep ambivalence about wielding power over a peer's livelihood.

The majority of managers filling out 360-degree feedback reports hesitate to criticize any aspect of their peer's performance, particularly when raises and promotions may be on the line. Some also worry that negative feedback would strain their relationship with colleagues if it ever came out who had provided which ratings. And then there is the quid-pro-quo dilemma. As former General Electric CEO Jack Welch notes in *Jack: Straight from the Gut* (Warner Books, 2001): "Like anything driven by peer input, the system is capable of being 'gamed' over the long haul. People [at GE] began saying nice things about one another so they all would come out with good ratings." On the flip side, vindictive sorts might take advantage of an opportunity to besmirch a colleague's professional reputation. In the end, this leaves a great many managers dreading their involvement in 360s, whether as a subject or as a contributor.

So is the use of the 360-degree feedback tool for performance appraisals a mistake? Some experts say yes: it should be left to its original purpose. But others disagree, pointing to new ideas on reshaping the tool so that it not only encourages direct and honest feedback in annual reviews but also fits the particular needs and priorities of a broad range of organizations.

Development to appraisal

It's easy to see why firms are attracted to using the 360-degree approach for performance appraisals. After all, it promises a much more comprehensive picture of a manager's performance than the traditional boss-only review can offer. As Ginka Toegel and Jay A. Conger point out in "360-Degree Assessment: Time for Reinvention" (*Academy of Management Learning & Education*, September 2003), firms that use it for both development and appraisal get more bang for every buck they've invested in it. In addition, the authors point out, "flatter organizational structures [have] loosened the link between reviews and promotions," eroding the meaningfulness of traditional performance appraisal approaches and causing "growing dissatisfaction with the review process." What better way to address this dissatisfaction than to use a proven professional-development tool that's already near at hand?

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But as companies have chalked up firsthand experience with using 360 for performance evaluation, they've run into problems. For one thing, obtaining distorted feedback wastes the time and money invested in adapting and using the tool. Equally troubling, recipients may well view the feedback process as punitive—and studies have shown that punishment is far less effective than reward and encouragement in enabling change. As Toegel and Conger acknowledge, "opponents of the migration toward appraisal argue that the goal of 360-degree assessment should be broader than simply assessing performance: it should foster continuous learning and personal development.… Using the 360-degree data for performance appraisal makes the developmental process potential 'punitive' and one that is 'forcing' instead of 'enabling' change."

To address such concerns, Toegel and Conger advocate creating two separate versions of the 360: one for professional development and the other for performance appraisal. The development version should rely more heavily on qualitative feedback, the appraisal version on quantitative responses. In the appraisal version, metrics would relate to measurable performance outcomes such as quality, quantity, and cost. Moreover, they say, reviewers should indicate the extent to which constraints such as high turnover and loss of funding have influenced the individual's performance. The recipient and his supervisor would then discuss how constraints might be eliminated in the future.

Others say organizations using 360s for performance appraisals are making a bad mistake. "Tools like the 360 get a buzz, and then companies faddishly adopt them without appraising what they want from them, or their effects," says workplace psychologist Ken Christian. "Then they make matters worse when no one asks, 'What's our purpose in using a personal development tool for performance appraisal?' With the 360, you can't keep feedback anonymous, so it's a sham exercise. Any potential developmental benefits of the tool are lost."

Even so, executives from companies across a broad range of industries continue to use 360s. And some are creatively addressing the problems inherent in using the tool as an appraisal device—and generating promising results. To get the most from 360s in performance appraisal, attend to the following key principles:

1. Base feedback on crystal-clear criteria.
Some companies have discovered that the numerical rating scales commonly used to score recipients' performance generate meaningless information. This is especially true when the scales are used to rate hard-to-quantify managerial qualities such as "communication ability" or "integrity." Yet according to Bob Speroff, director of human resources-operations support at FedEx Express, headquartered in Memphis, there is a way to develop quantifiable criteria.

Speroff's organization currently gathers performance feedback from managers' supervisors, direct reports, and peers through separate mechanisms that the company has developed. Supervisor feedback comes from the traditional annual performance review process. Direct reports' feedback is derived from surveys in which employees comment on their manager's leadership abilities. And peer feedback comes from surveys of "internal customers," as managerial peers at FedEx Express are known. All the data is compiled and then tied to compensation.

Not surprisingly, the peer portion of the feedback has posed the thorniest problems because peers do not always provide the most candid commentary on one another. Speroff says scores average 3.6 on a 4-point scale, suggesting near-perfect performance. But business *results*—in particular, earnings per share—aren't always that stellar for each divisional group. Clearly, a disconnect exists between the performance feedback and actual performance.

To address it, Speroff's group plans to change the peer-feedback component of the traditional 360. Specifically, rather than rating colleagues on hard-to-quantify criteria, peer managers will evaluate one another according to how well they meet measurable internal customer/supplier service agreements the parties have forged. For example, Speroff explains that "if I promise an internal customer—a VP of a division—that my group will hire 2,000 new employees for her division at a recruiting cost of $4,000 each, and that the turnover rate will be less than 20 percent, it'll be pretty easy to see if I've fulfilled those commitments."

With Speroff's new approach, there's only one criterion for excellent performance: Did a manager meet his commitments to the internal customer? This simplified approach enables the organization to avoid the political maneuvering and the squeamishness about giving negative feedback that are inherent in the current rating system.

2. Customize and stretch the tool.
FedEx's approach illustrates another key principle to more effective use of the 360: customization of the tool. In FedEx's case, the company's plan does not impose one-size-fits-all performance standards on managers. Rather, internal customer/supplier pairs define the standards—in terms of service agreements—against which performance gets measured. Peers evaluate one another's performance based on objectives *they've* identified as most important to their ability to excel within the company.

Francie Dalton, president of Columbia, Md.-based Dalton Alliances, a communications and behavioral sciences consultancy, agrees that having 360-degree feedback recipients participate in defining performance criteria offers major advantages. "Recipients perceive the results of the review as more valid," she says. "They also tend to feel more committed to acting on the results—a necessity for spurring change."

Some firms and individuals are finding other creative ways to customize use of the 360. As Joann S. Lublin notes in the *Wall Street Journal* (October 27, 2003), Pfizer CEO Henry McKinnell posted "twenty-five senior executives' evaluation of his performance…on the drug company's internal Web site early last year." McKinnell's goal? To enable every worker to "learn about his strengths and weaknesses."

William Arruda, founder of the Paris-based branding consulting firm Reach, encourages his clients to include feedback from people *outside* their organization—such as customers, business partners, suppliers, and other external constituencies. "Business today," Arruda explains, "is more about your success outside the organization than inside. Getting feedback from external constituencies reminds you that outsiders' perceptions are important. You begin behaving more as a team player with people you wouldn't normally make yourself visible to."

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Dalton advises client firms to combine individual 360-degree feedback results into group scores. "This approach protects anonymity yet still sheds light on how a group or department is perceived collectively." For example, do members of a particular team "perceive their own group as being empowering? As backbiting? By getting a sense of their group's overarching characteristics, individual team members can begin gaining insights into whether they're pulling the team up or dragging it down."

3. Don't skimp on qualitative feedback.
Laurent Charpentier, head of Ford's customer service division-France, says managers have

responded well to an increase in the qualitative-to-quantitative feedback ratio in the company's 360-degree surveys. Managers had viewed the quantitative-only metrics used in the previous version of the tool as "too impersonal," he says. Once the qualitative component was added, managers found the feedback "much more effective."

Toegel and Conger agree that quantitative feedback alone can't capture the subtleties and nuances that written comments can. Yet they advise against providing extensive qualitative feedback in 360 surveys used for performance appraisal. Rather, they recommend a heavy emphasis on written comments only when the tool is used for professional development. In this case, they explain, reviewers should provide qualitative feedback to explain and justify every numerical evaluation on the survey. The authors also suggest putting questions requiring the most extensive qualitative responses early in the survey form, so reviewers can fill them out before "respondent fatigue" sets in.

4. Clarify the tool's purpose and structure.

Many managers have found that communicating the 360's purpose and applying it according to a clear, predictable structure can increase its effectiveness. In Charpentier's division, for example, everyone who will receive 360-degree feedback first gets an explanation of the evaluation's purpose: to help her define areas for improvement—not to determine compensation. At year's end, managers receive an annual 360-degree appraisal from which they set their own objectives for the coming twelve months. Then, the following year, they receive coaching on areas needing improvement at midyear, the end of the third quarter, and at year's end.

Duff Young, CEO of Richmond, Virginia-based Rehrig International, a shopping cart manufacturer, agrees that using the 360 to a clearly defined end is essential. For instance, he has seen executives who are squeamish about delivering bad news use the tool to amass negative feedback and then "dump" it on the hapless manager. Young now encourages executives to address performance concerns directly with the individual in question rather than use the 360 to avoid potentially painful confrontations.

5. Build a culture of trust and candor.

According to many executives, successful use of the 360 rests on a foundation of trust and candor. For example, at Ford Europe, a 360 recipient can nominate his reviewers. To prevent a recipient from trying to "stack the deck" in her favor, her supervisor must review and approve all nominations. In addition, Ford requires a wide array of respondents for each recipient: one to two supervisors, three to six peers, and three to eight direct reports. Finally, reviewers can decide whether to remain anonymous to the recipient. Charpentier says that about "20 percent of reviewers choose to sign their reports." Many recipients and reviewers, he notes, even discuss the rating process with each other.

Jim McCarthy of Tark, a manufacturing company based near Boston, has taken additional steps to build trust and candor in his organization. His emphasis on openness stems from his firsthand experience with "being 360'd." "I suspect that people weren't totally honest," he says. "There was a lot of praise—and I'm no saint." McCarthy has dramatically changed the way he communicates with managers and employees. Whereas he previously avoided painful conversations and protected people from troubling news about the company's overall performance, he now makes honest announcements about the business. "If they don't hear what I hear, they can't respond by making continuous improvements in their performance," he says. So far, he has received encouraging responses. "People have responded like adults," he says. "They've been very accepting."

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